

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Looking Forward To Better Capital Management

Despite continued strong momentum in new order wins ytd in 2023, YZJ's share price has disappointed in the past month, underperforming the STI and MSCI Singapore indices. We attribute this to the paucity of its dividend payout announced with its 2022 results in late-Feb 23. With net cash of S\$0.31 at end-23 and lack of onerous capex, we believe that better capital management could be a share price driver in the medium term. Maintain BUY. Target price: S\$1.58.

WHAT'S NEW

- Share price underperformance since 2022 results announcement.** Since its 2022 results announcement on 23 Feb 23, Yangzijiang Shipbuilding's (YZJ) share price has fallen 11.1% and underperformed the Straits Times Index (STI) which declined around 1.4%. We highlight that the company reported strong 2022 results and an expansion in its shipbuilding margins. Subsequent to its results announcement, there were industry reports that YZJ had won a potential shipbuilding order for 12 product tankers worth US\$700m from European-based clients. Nevertheless, we attribute the dull share price performance to a lack of clarity regarding the company's capital management.
- Room for capital management to improve.** In our view, the major issue facing YZJ at present is its capital management. As at end-22 and on a per share basis, YZJ had Rmb1.61 or S\$0.31 in net cash but the company nevertheless chose to only mildly increase its 2022 dividend to S\$0.05. Its Feb 23 acquisition of the remaining 45% stake in the Jiasheng Gas to bolster its LNG ambitions cost Rmb430m out of its end-22 cash hoard of Rmb10.8b (see table below). In our view, and in light of our forecast free cash flow of Rmb2b in 2023F, the company could easily have afforded to be more generous to its shareholders by raising its dividend.

JIASHENG GAS ACQUISITION

Date	Stake acquired	Rmb million			
		Price paid	Gross valuation	Book value	P/B
16-Jul-19	55%	308.2	560.4	124.6	4.5x
23-Feb-23	45%	430.1	955.7	66.5*	14.4x
Change			+70.6%	-46.7%	

Note: * Acquisition made through third party which booked its land and assets at historical cost
Source: YZJ

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	16,768	20,705	26,132	30,461	28,443
EBITDA	3,727	3,244	4,026	4,444	4,128
Operating profit	3,226	2,708	3,490	3,908	3,593
Net profit (rep./act.)	3,699	2,637	3,334	3,674	3,435
Net profit (adj.)	3,666	2,637	3,334	3,674	3,435
EPS (Fen)	92.9	66.8	84.5	93.1	87.1
PE (x)	6.7	9.3	7.3	6.6	7.1
P/B (x)	0.7	1.4	1.0	0.9	0.8
EV/EBITDA (x)	3.6	4.1	3.3	3.0	3.3
Dividend yield (%)	4.0	2.8	3.5	3.9	3.6
Net margin (%)	22.1	12.7	12.8	12.1	12.1
Net debt/(cash) to equity (%)	(22.1)	(35.4)	(47.6)	(50.7)	(54.3)
Interest cover (x)	53.3	30.4	80.4	116.7	158.1
ROE (%)	10.8	9.9	16.3	14.7	12.3
Consensus net profit	-	-	3,213	3,440	3,133
UOBKH/Consensus (x)	-	-	1.04	1.07	1.10

Source: Yangzijiang Shipbuilding (Holdings), Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.20
Target Price	S\$1.58
Upside	+31.7%

COMPANY DESCRIPTION

Established in 1956, the company is based in Jiangsu, China, and is the country's largest private shipyard. It builds a broad range of ships including containerships, bulk carriers and LNG carriers, and its client network spans North America, Europe and Asia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	YZJSGD SP
Shares issued (m):	3,950.6
Market cap (S\$m):	4,740.7
Market cap (US\$m):	3,552.7
3-mth avg daily t'over (US\$m):	29.7

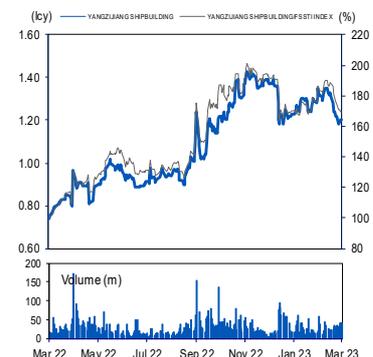
Price Performance (%)

52-week high/low	S\$1.43/S\$0.717			
1mth	3mth	6mth	1yr	YTD
(11.1)	(13.7)	9.1	65.0	(11.8)

Major Shareholders

Ren Yuanlin	23.0
Wang Dong	10.1
T.Rowe Price	5.9
FY23 NAV/Share (Rmb)	6.08
FY23 Net Cash/Share (Rmb)	2.89

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- LNG ambitions.** YZJ's entry into LNG started in 2019 with the 55% acquisition of Jiasheng Terminal for Rmb308m, and in Feb 23, it bought the remaining stake for Rmb430m. At present, YZJ is in the process of obtaining government approvals to convert Jiasheng Terminal's site and adjacent land into an LNG terminal comprising LNG filling and storage facilities. It appears that the company will use this Jiasheng terminal as the hub within a hub-and-spoke service to distribute LNG into the upstream Yangtze River region. Construction cost is estimated at approximately Rmb2b and is likely to take around two years – thus profit contribution at the earliest would be in 2025.
- Continued positive momentum in new order wins.** In late-Feb 23, at its results briefing, the company announced that it had clinched new orders totaling 14 vessels with a total contract size of US\$0.91b. Along with the recent US\$700m order win for 12 tankers, this brings YZJ's ytd order wins to US\$1.61b and over halfway to the company's target for US\$3b in orders. The company stated that it will target mostly tankers in 2023 as its clients appear to have shown less appetite for other types of vessels. Including the recent tanker orders, we estimate that YZJ has a total outstanding orderbook in excess of US\$11.7b, with deliveries extending into 2026.
- Winding up petition order on YZJ's subsidiary – no impact.** YZJ's subsidiary, Yangzijiang Shipping Pte Ltd (YZJS), was ordered by the Singapore courts to be wound up over a dispute regarding a US\$4.8m profit from the sale of a tanker. We understand that liquidators have already been appointed, and YZJS has until around mid-Apr 23 to appeal this winding-up order. However, we highlight that YZJS is a dormant company, has negligible net asset value and if wound up it will not have any material impact on YZJ itself. In the worst case scenario, a provision of around US\$5m would amount to <1% of our estimated 2023 earnings.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain our BUY recommendation with a PE-based target price of S\$1.58.** Our target PE multiple of 9.0x, applied to our 2023 EPS forecast, is 1SD above YZJ's past five-year average of 6.7x which we view as fair given the company's earnings growth in 2023, as well as the stability of its earnings due to its US\$11.7b orderbook at present. We note that at our fair value of S\$1.58, YZJ would trade at a 2023F P/B of 1.3x, a level that was last seen in 2012.

SHARE PRICE CATALYST

- Better capital management.
- Evidence of margin expansion from 2023 onwards.
- New orders in higher-margin shipbuilding segments, eg dual-fuel containerships, LPG tankers or large LNG carriers.

FIVE YEAR P/B



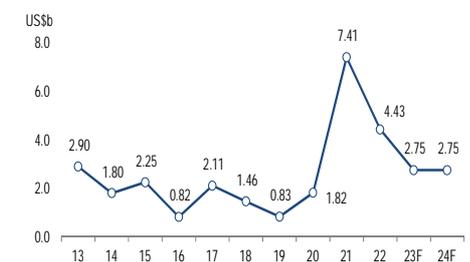
Source: Bloomberg, UOB Kay Hian

FIVE YEAR PE



Source: Bloomberg, UOB Kay Hian

HISTORICAL AND FORECAST ORDER WINS



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	20,705	26,132	30,461	28,443
EBITDA	3,244	4,026	4,444	4,128
Deprec. & amort.	536	536	536	536
EBIT	2,708	3,490	3,908	3,593
Total other non-operating income	688	676	676	677
Associate contributions	13	100	100	100
Net interest income/(expense)	(107)	(50)	(38)	(26)
Pre-tax profit	3,302	4,216	4,646	4,344
Tax	(678)	(885)	(976)	(912)
Minorities	12	3	4	3
Net profit	2,637	3,334	3,674	3,435
Net profit (adj.)	2,637	3,334	3,674	3,435

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	7,278	7,673	8,067	8,462
Other LT assets	2,679	2,754	2,828	2,903
Cash/ST investment	10,785	12,244	14,262	16,452
Other current assets	12,225	13,504	14,544	14,064
Total assets	32,967	36,175	39,702	41,882
ST debt	2,269	299	299	(1)
Other current liabilities	9,988	10,805	11,508	11,193
LT debt	2,298	802	503	504
Other LT liabilities	707	707	707	707
Shareholders' equity	17,573	23,433	26,560	29,357
Minority interest	132	128	125	121
Total liabilities & equity	32,967	36,175	39,702	41,882

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	4,632	2,805	3,269	3,533
Pre-tax profit	2,625	3,331	3,671	3,432
Tax	0	0	0	0
Deprec. & amort.	536	536	536	536
Associates	(13)	(100)	(100)	(100)
Working capital changes	1,100	(462)	(337)	165
Non-cash items	0	0	0	0
Other operating cashflows	385	(500)	(500)	(499)
Investing	(877)	(905)	(905)	(905)
Capex (growth)	(905)	(905)	(905)	(905)
Capex (maintenance)	0	0	0	0
Investments	(209)	0	0	0
Proceeds from sale of assets	46	0	0	0
Others	191	0	0	0
Financing	(5,341)	(440)	(346)	(438)
Dividend payments	(975)	(940)	(846)	(940)
Issue of shares	0	0	0	0
Proceeds from borrowings	6,238	2,000	2,000	2,001
Loan repayment	(6,210)	(1,500)	(1,500)	(1,499)
Others/interest paid	(4,394)	0	0	0
Net cash inflow (outflow)	(1,585)	1,459	2,018	2,190
Beginning cash & cash equivalent	12,370	10,785	12,244	14,262
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	10,785	12,244	14,262	16,452

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.7	15.4	14.6	14.5
Pre-tax margin	16.0	16.1	15.3	15.3
Net margin	12.7	12.8	12.1	12.1
ROA	6.2	9.6	9.7	8.4
ROE	9.9	16.3	14.7	12.3
Growth				
Turnover	23.5	26.2	16.6	(6.6)
EBITDA	(13.0)	24.1	10.4	(7.1)
Pre-tax profit	(32.3)	27.7	10.2	(6.5)
Net profit	(28.7)	26.4	10.2	(6.5)
Net profit (adj.)	(28.1)	26.4	10.2	(6.5)
EPS	(28.1)	26.4	10.2	(6.5)
Leverage				
Debt to total capital	20.5	4.5	2.9	1.7
Debt to equity	26.0	4.7	3.0	1.7
Net debt/(cash) to equity	(35.4)	(47.6)	(50.7)	(54.3)
Interest cover (x)	30.4	80.4	116.7	158.1

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